



**National Rural Utilities
Cooperative Finance Corporation**

Created and Owned by America's Electric Cooperative Network

20701 Cooperative Way
Dulles, Virginia 20166
703-467-1800 | www.nrucfc.coop

April 28, 2014

Via Electronic Mail to reg-comm@fca.gov

Laurie A. Rea
Director, Office of Secondary Market Oversight
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Re: Advance Notice of Proposed Rulemaking: “Federal Agricultural Mortgage Corporation Governance; Farmer Mac Corporate Governance and Standards of Conduct”

12 CFR Part 651, RIN 3052-AC89, February 25, 2014

Introduction

The National Rural Utilities Cooperative Finance Corporation (“CFC”), a nonprofit member-owned cooperative, appreciates the opportunity to respond to the request for comment on the advance notice of proposed rulemaking (“ANPRM”) published by the Farm Credit Administration (“FCA”) regarding FCA’s consideration of regulations related to the Federal Agricultural Mortgage Corporation’s (“Farmer Mac”) corporate governance. The FCA has requested comments to questions in five areas and CFC is submitting comments in the following three areas: 1) Conflicts of Interests for Directors, Officers and Employees, 2) Director Nomination and Elections, and 3) Director Representational and Fiduciary Duties.

Background on CFC

CFC is a member-owned cooperative association incorporated under the laws of the District of Columbia in April 1969. CFC’s principal purpose is to provide its members with financing to supplement the loan programs of the Rural Utilities Service of the United States Department of Agriculture. CFC makes loans to its rural electric members so they can acquire, construct and operate electric distribution, generation, transmission and related facilities. CFC also provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations. As a cooperative, CFC is owned by and exclusively serves its membership, which consists solely of not-for-profit entities or subsidiaries or affiliates of not-for-profit entities. CFC funds its activities primarily through a combination of publicly and privately held debt securities and member investments.

CFC is a public reporting company with securities registered on the New York Stock Exchange (“NYSE”) so it is subject to the rules and regulations of both the Securities and Exchange Commission (“SEC”) and NYSE. By way of background, CFC is also the owner of a portion of Farmer Mac’s 5.875% Non-Cumulative Preferred Stock,

Series A; 6.875% Non-Cumulative Preferred Stock, Series B; and Class A Common Stock.

Public Company Regulation

Before addressing the specific questions posed by the ANPRM, we wish to note that as a public reporting company with securities registered on the NYSE, Farmer Mac's corporate governance must comply with the rules and regulations of the SEC, NYSE, and the Sarbanes Oxley Act of 2002, as amended (collectively, the "Securities Regulations"). The Securities Regulations require public reporting companies to meet extensive corporate governance standards and regularly disclose material information to maintain a transparent relationship between the company and its shareholders. For instance, as a public reporting company, Farmer Mac is required to file with the SEC yearly, quarterly, and periodic filings following material events, in addition to filing an annual proxy statement (the "Proxy Statement") in advance of its annual meeting of shareholders. The intent of the Proxy Statement is to provide all shareholders with 1) material information about what actions are to be voted on by the company, 2) a method for stockholders to submit matters for shareholder vote, and 3) an overview of the corporate governance structure of the company. As a public reporting company active in the capital markets, CFC is familiar with both the corporate governance compliance requirements and disclosure requirements of the Securities Regulations and believes they provide shareholders with comfort that public reporting companies have adequate corporate governance and are transparent to shareholders. In addition, the Securities Regulations have been revised over time and are expected to continue to evolve to address changes in the financial industry and changes in best practices.

We would also like to note that Farmer Mac has periodically reviewed its corporate governance practices to determine if corporate governance enhancements are needed beyond those set out in the Securities Regulations. For instance, Farmer Mac recently revised its bylaws to require advanced notice before director nominations and business proposals can be submitted for shareholder vote. CFC believes these revisions are reasonable and consistent with the practices of other public reporting companies.

Conflicts of Interests for Directors, Officers and Employees

CFC shares FCA's view that it is important for Farmer Mac to be transparent to all shareholders and that Farmer Mac's directors, officers, and employees adhere to the highest standards of corporate governance and ethics in connection with their service to Farmer Mac. We note that Farmer Mac has adopted independence standards for directors beyond those required by the SEC and NYSE, has enacted policies governing related party transactions to ensure that any transactions with director-related entities are as fair to Farmer Mac as transactions with its other customers and vendors, and provides detailed disclosures about related party transactions in its SEC filings. CFC believes that Farmer Mac's policies and procedures, including its policies regarding conflicts of interest, are reasonable and consistent with the practices of other public reporting companies. In addition to the foregoing, the Securities Regulations and Farmer Mac's bylaws currently provide a

procedure for shareholders to request a shareholder meeting to discuss proposed changes to the corporate governance practices of Farmer Mac.

Director Nominations and Elections

The Securities Regulations require a nominating committee to act as the gatekeeper for director nominations to make sure that nominated directors are qualified to meet the minimum standards set forth in the bylaws and to ensure that all shareholders have sufficient information to make an informed decision on whether to vote for a particular director. The Farmer Mac bylaws are consistent with Securities Regulations and provide that shareholders must provide advance notice of matters to be voted on by shareholders to ensure that shareholders have adequate time to evaluate directors and obtain information. We note that the FCA is requesting comment on allowing floor nominations. We believe that floor nominations are counter to providing shareholders the fullest opportunity to make informed decisions.

Director Representational and Fiduciary Duties

Director fiduciary duties have been developed by case law without the need of regulation by the SEC or other regulatory agencies. Like all public reporting companies, Farmer Mac has developed and periodically evaluates its Code of Business Conduct and Ethics which includes an outline of the fiduciary duties of the directors. CFC believes Farmer Mac has been proactive in addressing the potential for conflicting fiduciary duties by the adoption of board policies that require directors to act in the best interest of Farmer Mac and by requiring director candidates to confirm in advance of their nomination that they have no conflicts that could prevent them from complying with their fiduciary duties to Farmer Mac.

Additionally, CFC understands that Farmer Mac periodically provides training seminars and materials to educate its directors regarding his or her fiduciary duties to Farmer Mac and provides directors an opportunity to discuss any questions regarding fiduciary duties. We believe the above policies and procedures are reasonable and consistent with the policies and procedures of other public reporting companies.

CFC understands and agrees with FCA's desire to ensure that Farmer Mac maintains transparency with its shareholders. However, it is important that all shareholders be treated equally and have the same access to information. While some directors may have a previous or ongoing relationship with one shareholder, they still owe fiduciary duties to Farmer Mac and must maintain the confidential information of Farmer Mac. Additionally, Regulation FD of the Securities Regulations (commonly referred to as the Fair Disclosure Act) regulates when and what type of information is to be disclosed to shareholders and failure to follow these regulations could result in enforcement actions by the SEC against the directors of Farmer Mac.

If the FCA were to issue regulations providing for increased communication between directors and shareholders with a representational relationship, shareholders that

do not have a representational relationship to a Farmer Mac director could be significantly disadvantaged. In the event shareholders are in competitive lines of business, a shareholder with a representational relationship to a director may obtain information that provides an unfair competitive advantage over a shareholder without a representational relationship with a director. If board membership is used as a means of obtaining confidential information, this could lead to hostility between shareholders and the departure of non-representational shareholders. Such actions could reduce board diversity, confuse director fiduciary duties, and potentially lead to director liability under the Securities Regulations.

Conclusion

For the reasons noted above, we believe Farmer Mac has implemented an effective corporate governance framework that is reasonable and consistent with other public reporting companies and that it will continue to identify and implement best practices as corporate governance standards evolve. If in the future any shareholder believes a change to the corporate governance framework or the Farmer Mac bylaws are required, the Farmer Mac bylaws provide a procedure for such shareholder to request a shareholder meeting to discuss the proposed change. CFC appreciates the opportunity to comment on the ANPRM and encourages the FCA to consider the comments contained in this letter as it considers any future proposed regulations.

We appreciate your consideration of the above matters and welcome the opportunity to further discuss our views. Please do not hesitate to contact Brad Captain, CFC's Senior Vice President of Corporate Relations, at (703) 467-1646, brad.captain@nrucfc.coop should you wish to discuss any of our comments or need additional information.